

Michigan No-Fault CHOICE

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CAR
Coalition for Auto Insurance Reform

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Reforming Michigan's no-fault auto insurance system will improve Michigan's economy *CPAN Study found to be flawed and inconsistent*

Lansing, Mich. — According to a new study, changes to Michigan's no-fault auto insurance system, which has become unsustainable, will generate real savings in medical care and put money back into consumer's pocket and back into the state's economy. Dr. Gary Wolfram, president of the Hillsdale Policy Group, Ltd., found that providing consumers a choice in choosing their medical coverage along with medical cost controls would reduce insurance premiums and excess health care expenditures, which would create jobs, increase output and increase income in Michigan.

Legislation has been introduced by state Rep. Pete Lund, R-Shelby Township that would protect injured motorists and keep a lid on insurance rates by controlling medical costs, which currently account for up to 40% of the premium price. House Bill 4936, known as the "Consumer Choice Insurance Act," would provide consumers with a choice of no-fault auto medical coverage options of \$250,000, \$500,000, \$1 million and \$5 million and eliminate the unlimited coverage mandate.

According to Wolfram, the effect of the proposed legislation will result in increases in economic activity. Wolfram said reducing the cost of insurance by eliminating unlimited personal injury protection (PIP) requirements would result in expanding Michigan's economy.

"Reducing production costs will create an incentive for existing firms to increase output and for firms to relocate in Michigan," said Wolfram. "This will result in employers hiring more workers and greater earnings for the Michigan work force."

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Michigan's high premiums and high cost per claim

Wolfram points to several reasons for Michigan's high premiums and high cost per claim:

1. The requirement that all drivers have unlimited personal injury protection is a major driver of health care costs. Wolfram added that consumers are forced to purchase more health insurance than they desire.
2. Every driver having unlimited PIP creates incentives to inefficiently use health care resources.
3. When treatment is paid for regardless of cost, there is a particularly large incentive for fraud.

"Consumers choose the amount of auto collision insurance, fire insurance, dental insurance, health insurance, and other types of insurance based upon their estimate of the probability that an untoward event will happen, their risk aversion, and their income," said Wolfram. "Michigan's requirement of unlimited PIP coverage results in the over-purchase of personal injury protection by nearly all Michigan drivers."

CPAN Study is flawed and inconsistent. Saving consumers \$1 billion will not have a negative effect on our economy

Wolfram analyzed a study commissioned by CPAN, a group of trial lawyers and medical providers looking to protect the system that is overcharging consumers, entitled Impact of Proposed "PIP Choice" Law in Michigan: The Potential Effects of Changes to Personal Injury Protection Liability Law conducted by Anderson Economic Group (AEG) and found it flawed and inconsistent with standard economic theory.

The AEG study concludes that saving consumers up to \$1 billion per year in premiums by allowing them to choose their appropriate level of no-fault medical coverage would have a negative impact on the Michigan economy.

"The point should be that this change would improve Michigan's economy by allowing consumers, rather than the government, decide how much is to be spent on health care and would eliminate the wasteful requirement of duplicate coverage many drivers are saddled with," concluded Wolfram.

Flawed approach leads to nonsensical results

In his analysis of the CPAN study, Wolfram provided an example to show how the economic methodology used by AEG was flawed:

Suppose that ACE Corporation invented an extraordinary helmet that when placed on the head of a person with traumatic brain injury instantly cured them. If the cost of this helmet were \$5, this would clearly lead to billions of dollars in savings of health care costs and undoubtedly be good for the Michigan economy as the resources that had been used in the production of these health care services could be used to produce other things that people value.

According to Wolfram, in the CPAN study framework, this invention would instead lead to hundreds of millions of dollars in lost output in Michigan and the loss of thousands of jobs.

“This is because curing these brain-injured people would mean reduced spending in the health care industry,” said Wolfram. “This reduction in spending would then translate through a model ill-designed to analyze the effects of reductions in costs of production with the misguided result that reductions in cost reduce output in industries throughout the state. If we are to believe the CPAN study, any invention which reduces health care costs in Michigan would be a negative for the economy.”

If you have any questions regarding the study, please contact Gary Wolfram at 517-437-3765 or gwolfram@hillsdale.edu.

To read the complete study by Wolfram, please visit: NoFaultChoice.com

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